農銀國際 ABC INTERNATIONAL
ABCI SECURITIES COMPANY LIMITED

3 August 2012
Equity Focus

Sunac (1918 HK) – Maintain Buy
Real Estate Development Industry

Key Data

Share price (HK$)	3.23
Target price (HK$)	4.35
Upside potential (%)	34.6
52Wk H/L(HK$)	3.75 / 1.17
Issued shares (mn)	3,002
Market cap (HK$mn)	9,696
30-day avg vol (HK$mn)	16.73
Major shareholder (%):	
Sun Hongbin	51.85
Bain Capital	10.01
China Diamond	8.51

Source: Company, Bloomberg, ABCI Securities

Revenue composition in FY11 (%)

Property development:	98.4
Rental income	0.2
Property management	1.4

Source: Company

Share performance (%)

	Absolute	Relative*
1-mth	0.9	(1.0)
3-mth	29.8	39.1
6-mth	55.7	59.7

Source: Bloomberg
**Relative to Hang Seng Index*

1 year price performance

Source: Bloomberg

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Previous report
Date: 2 April 2012
Rating: Buy

Growing big

Sunac, a niche developer in high-end property market, posted resilient sales growth for 1H12, denying the curbing measures on the sector. With est. Rmb22bn sales cash inflow, our worry on the group's liquidity risk is easing, even though the gearing ratio is expected to maintain at 95-100% in the short term. The strategic entry to 1st-tier city, Shanghai by acquiring equity interest from projects of Greentown (3900 HK) fits well into its high-end positioning. This, together with demonstrated capability in product development and marketing, is set to open up more upside for the group. We raised our 2012 NAV by 15% to HK$7.24 with WACC at 13.7%. Core EPS for FY12 and FY13 rose accordingly by 7% and 10% to Rmb0.711 and Rmb0.872. We apply 5.0x forward PE and based on our 2012E EPS of Rmb0.711, we raise our TP of Sunac from HK$2.95 to HK$4.35. Maintain Buy rating.

Resilient sales growth in market downturn: The group recorded contracted sales of Rmb11.2bn, up 129.1%YoY for 1H12. Sunac is rewarding from its gradually built brand in focused cities. This helps it stand out in market downturn. We are turning more positive on its sales outlook. We expect the group to post Rmb24.0bn sales for 2012, implying 35.5%YoY growth for the year and surpassing its budget sales by 9.1%.

Liquidity concern eased: Through strong cash inflow from sales, we expect that Sunac is able to fulfill its fund needs, not only survive but also allow it expands. We estimate the group has Rmb6.7bn cash for buffer before refinancing by the year end.

Strategic entry to Shanghai: After years of home market brand building, Sunac is rolling out its expansion plan. The group strategically entered Shanghai through acquiring projects interest from Greentown. The deal establishes a cooperative platform for Sunac with Greentown, a well-known high-end but financially distressed developer. With penetrating in Shanghai, Sunac is on fast growing track. Core EPS for FY12 and FY13 is expected to grow 19.0%YoY and 22.7%YoY respectively.

Risk factors: Equity raising to lower down gearing; Slower-than-expected sales progress in 2H12; high gearing; unfavorable government policy.

Forecast and Valuation

FY ended Dec 31	FY09A	FY10A	FY11A	FY12E	FY13E
Core net profit^ (Rmbmn)	785	1,542	1,793	2,132	2,616
YoY chg(%)	-	*96.4*	*16.3*	*18.9*	*22.7*
Core EPS (Rmb)	0.349	0.514	0.597	0.711	0.872
YoY chg(%)	*0.0*	*47.3*	*16.1*	*19.0*	*22.7*
BVPS(Rmb)	0.6	1.6	2.4	3.0	3.7
PE(x)	-	-	4.4	3.7	3.0
PB(x)	-	-	1.1	0.9	0.7
ROAE(%)	60.2	51.1	40.2	26.7	25.9
Dividend yield (%)	-	-	3.2	3.0	4.0

^Excluding revaluation G/L on investment property; @Rmb0.8121/HK$
Source: Company, Bloomberg, ABCI Securities estimates

Disclosures

Analyst Certification

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